



OFFICE OF INSPECTOR GENERAL

AUDIT OF SELECT ACTIVITIES FROM THE USAID/FOOD FOR PEACE RESPONSE TO THE EBOLA CRISIS IN WEST AFRICA

AUDIT REPORT NO. 7-962-16-003-P
MARCH 16, 2016

DAKAR, SENEGAL



Office of Inspector General

March 16, 2016

MEMORANDUM

TO: USAID/Food for Peace Acting Director, Matthew Nims

FROM: Regional Inspector General/Dakar, Abdoulaye Gueye /s/

SUBJECT: Audit of Select Activities from the USAID/Food for Peace Response to the Ebola Crisis in West Africa (Report No. 7-962-16-003-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them in their entirety, excluding attachments, in Appendix II.

The final report contains nine recommendations to help your office strengthen its emergency food security programs. In comments on the draft report, your office agreed with six recommendations. Having evaluated the comments, we acknowledge your management decisions and final action on all recommendations. We disagree with the decisions on Recommendations 4, 6, and 8. Food for peace officials concurred with \$16,367 of \$33,825 that we recommended be put to better use in recommendation 7.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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SUMMARY OF RESULTS

More than 11,000 people in West Africa have died from Ebola since the virus¹ resurfaced in 2014. The epidemic has rocked the region on numerous fronts by curtailing trade as countries closed borders and people were discouraged from going to heavily populated areas, like markets, to avoid catching the virus. Farmers with fewer workers planted fewer crops, thus driving up food prices and decreasing the amount of food available.

To address these effects, USAID’s Office of Food for Peace (FFP) funded several emergency food security programs in Guinea, Liberia, and Sierra Leone—the countries most affected by Ebola. The first four nongovernmental organizations to receive FFP grants were Catholic Relief Services, Mercy Corps, Project Concern International, and Save the Children. As of June 30, 2015, FFP had obligated \$22.7 million and disbursed \$2.4 million through these implementers, listed in Table 1.

Table 1. Selected FFP-Funded Ebola Response Activities

Country	Implementer	Grant Value (\$)	Activity
Guinea	Catholic Relief Services	1,325,443	Food vouchers
Liberia	Mercy Corps	8,970,000	Cash transfers and agricultural input vouchers
Liberia	Project Concern International	8,030,564	Cash transfers, cash for work, and agricultural input vouchers
Sierra Leone	Save the Children	4,384,010	Cash transfers and cash grants
Total		22,710,017	

Source: FFP grant documents.

The implementers’ primary tasks were distributing cash transfers and food vouchers, standard activities elsewhere but never before done in these three countries by FFP. Cash transfers give beneficiaries money to buy food. Food vouchers can be redeemed for food in local markets. The implementers also planned to use agricultural input vouchers, cash for work, and cash grants, but had only begun to provide the agricultural input vouchers, redeemable for seeds, tools, and other agricultural supplies.

The Regional Inspector General/Dakar (RIG/Dakar) conducted this audit to determine whether certain USAID/FFP programs were on track to address food insecurity resulting from the effects of Ebola. The audit team found that the programs were not on track. Although they had started to help vulnerable people meet their food needs and recover from the 2014 crisis, they were months behind schedule, and many had missed their targets. For example, Mercy Corps

¹ The first cases of the virus were recorded in 1976 near the Ebola River in Zaire, which is now the Democratic Republic of the Congo (<http://www.bbc.com/news/magazine-28262541>, accessed on November 13, 2015).

intended to provide initial cash transfers to 20,000 beneficiaries in February 2015; as of June 2015, it had provided only 5,684 beneficiaries with these transfers.

A beneficiary at Mercy Corps' cash transfer distribution in Montserrado County, Liberia (shown below) was one person the programs helped. She said that during the Ebola crisis, vendors in her community of Porte Hill closed their stores for 3 months, leaving her no place to sell rice. Since she did not have other options, she and her family had to eat their stock of rice. She said she intended to use the \$42 transfer she received to help restart and improve her business.



A woman waits in line while another one receives her first cash transfer from a cashier in Montserrado County, Liberia. (Photo by RIG/Dakar, June 24, 2015)

Beneficiaries of Catholic Relief Services' program in the Horoya 1 Community, Nzérékoré Prefecture, Guinea, confirmed that they received their second food vouchers, worth 281,000 Guinean francs each (approximately \$40). The beneficiary pictured below (far left) showed auditors her identification card, which implementer staff punch each time she receives a voucher.



Beneficiaries of USAID/FFP programs receive identification cards like the one on the right. (Photos by RIG/Dakar, June 29, 2015)

Despite these successes, we found the following problems.

- Emergency programs were 3 months late on average (page 4). FFP's approval process was out of synch with implementers' proposed schedules.
- One implementer did not document its beneficiary selection process adequately (page 7). It relied on committees to select beneficiaries and did not require them to document each prospective beneficiary's eligibility.

In addition to these, the audit identified other matters.

- One implementer did not allocate expenses correctly and went over budget (page 8).
- One implementer did not set a realistic budget for bank services (page 9).

To address these issues, we recommend that USAID/FFP:

1. Revise its emergency award process to set deadlines for timely completion of each phase of the process (page 7).
2. Implement procedures to update program activity timelines, budgets, and other documents as needed before approving awards (page 7).
3. Evaluate and document its use of preaward letters in the Ebola emergency response to determine whether or not they were helpful in starting up activities (page 7).
4. Implement procedures to verify that implementers document how much time they allot to beneficiary identification committees to find program beneficiaries (page 7).
5. Assess and document its determination of the reasonableness of implementers' modified payment schedules (page 7).
6. Implement procedures to verify that implementers document the selection criteria each beneficiary meets to qualify for the program benefits (page 7).
7. Evaluate a total of \$33,825 in funds (\$5,145 of misallocated costs related to annual rent, \$1,811 in misallocated costs related to the finance coordinator's salary, and \$26,869 in budget overruns costs related to consultant payments), and determine any amounts that should be reprogrammed for better use (page 8).
8. Conduct a financial review of Save the Children's activities to verify that it used funds in accordance with the terms of the grant (page 8).
9. Implement procedures to verify that implementers' proposed budgets accurately reflect a program's financial needs (page 9).

Detailed findings follow, and the scope and methodology appear in Appendix I. Our evaluation of management comments is on page 10, and the full text of management comments, without attachments, is in Appendix II.

AUDIT FINDINGS

Emergency Programs Were 3 Months Late on Average

Grant documents prescribed the number of beneficiary households each implementer would target, the amounts of cash transfers or food vouchers to be distributed, and the dates for distributions. None of the implementers completed distributions on time, the average delay being 3 months.

Table 2. Grant Terms and Shortfalls per Implementer

Implementer ◆Item	Beneficiaries		Transfer or Voucher Value(\$)	Distribution Schedule (and Number)	Delay (Mo.)
	Targeted	Actual			
Mercy Corps (data as of June 2015)					
◆First Transfer (6/20)	20,000	5,684	42	Feb. to Sept. 2015 (7)	3
◆Ag. Voucher (6/3)	10,000	631	40	April 2015	3
Project Concern International (data as of July 9, 2015)					
◆Transfer	6,718	127	20*	April to Aug. 2015; June to Aug. 2016 (8)	3+
◆Ag. Voucher	5,279	0 [†]	40	March to April 2015; January to April 2016	
Catholic Relief Services (as of May 7, 2015)					
◆Food voucher	2,000	2,007	40	March to Oct. 2015 (8)	2
Save the Children (as of July 23, 2015)					
◆Transfer	6,445	6,445	30	April to Nov. 2015 (7)	3

Source: Implementer documents.

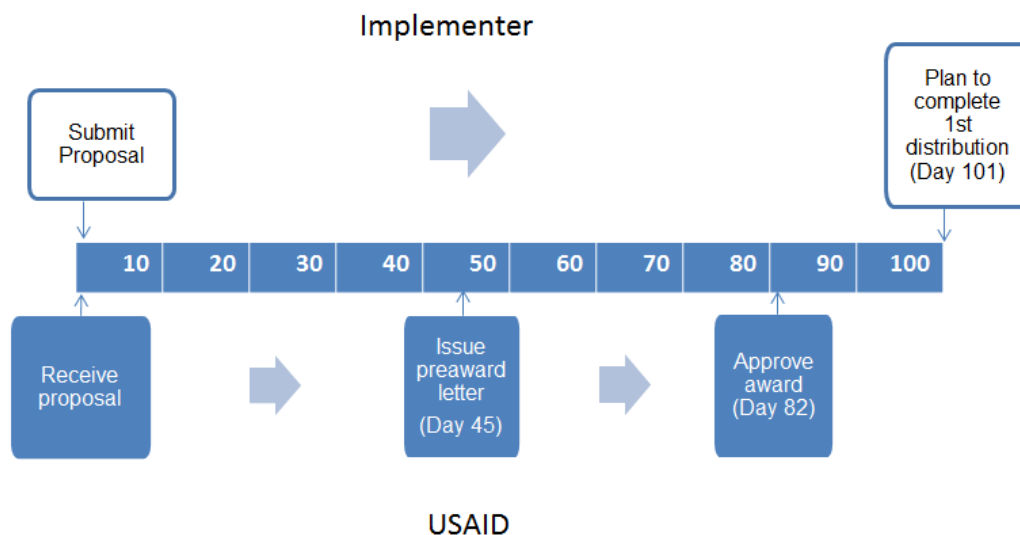
* The organization changed the amount from \$20 to 4,200 Liberian dollars (about \$50) so it was equal to the amount of money other organizations were providing.

[†] Implementer officials postponed agricultural vouchers in April 2015 until Aug./Sept. 2015, when farmers typically plant rice, corn, and cassava.

The shortfalls occurred because of the award approval process, difficulties recruiting staff, and coordination obstacles.

Award Approval. The implementers and USAID/FFP were out of synch in the process for approving emergency awards, as shown in the figure below.

Critical Points in the Emergency Award Process



On average, implementers planned to complete their first monthly cash transfer or food voucher distribution within 101 days of submitting their grant proposals. They estimated this amount of time was sufficient for both approval and implementation. However, FFP approved the awards on average 19 days before completion of the first monthly cash transfer and food voucher disbursements.

To help implementers get programs started before approval, the Agency used preaward letters. These letters notify awardees that USAID intends to enter into negotiations with them to implement programs but that awardees proceed at their own risk if the Agency ultimately decides not to approve an award. On average, USAID provided letters 45 days after it received applications, nearly halfway through the time allotted for implementation. Three of the four implementers did not hire program managers until they received formal approval. This meant implementers hired and, when needed, established field offices for programs generally after the awards were approved, delaying implementation. As depicted in the figure, because approval came so late, implementers had 19 days, on average, to complete their first monthly distribution.

Staff Recruitment. Officials from FFP and several implementers said they had trouble recruiting employees, adding to program delays. Some of the difficulties are listed below.

- *Competition with other donors for skilled local staff.* Few qualified people were available.
- *The short-term nature of the programs.* Three were to last less than a year.
- *Remote field offices.*
- *Travel difficulties.* Airlines either stopped or curtailed service in the region.
- *Medical insurance.* Insurance companies were reluctant to cover work in countries with Ebola.

Since these problems are beyond FFP's control, we do not make any recommendations on recruitment.

Coordination Obstacles. Before the Ebola crisis, local governments and organizations in the three countries had little or no experience with cash transfer and food voucher programming. Programs therefore had the following coordination problems.

- *Banking.* A senior official with the Liberian Government said only one financial institution there was established enough to conduct cash transfers throughout the country, a service that involved sending agents to the affected counties, providing security to ensure the safety of agents and cash en route and during the distribution, and so on. Implementer employees said they were concerned that the institution might not be able to meet increased demand.
- *Information technology.* Another challenge in Liberia was technology. Mercy Corps was working with Red Rose, a British information technology service provider, to configure and implement tablet-based beneficiary registration, which was supposed to be faster than paper processing. Mercy Corps spent more time than expected working with the company to create registration forms with fields tailored to capture beneficiaries' information.
- *Beneficiary selection.* In Sierra Leone, Save the Children had to develop a working relationship with the National Commission for Social Action, a government agency, to enroll people in the cash transfer program. Commission officials insisted on helping select beneficiaries for this first-of-its-kind program; Save the Children grew frustrated by not being able to move at a faster pace.

The shortfalls had far-reaching consequences for the programs:

- *Not reaching as many people as planned.* As shown in Table 2, as of June 20, 2015, Mercy Corps had provided 5,684 households with their first cash transfer, more than 14,000 households short of its target for February. Also, despite Mercy Corps' plan to provide 10,000 beneficiaries with agricultural vouchers in time for the main agricultural season, as of June 3, 2015, the implementer had provided only 631, well short of its target.
- *Potentially not reaching the most vulnerable.* To make up for lost time, implementers in Liberia may have shortchanged the identification of program beneficiaries. Although Mercy Corps officials created special committees and believed they were given enough time to find beneficiaries, members from two of three committees we interviewed said the implementer rushed them. By rushing beneficiary identification, Mercy Corps increased the risk of selecting beneficiaries who were not the most vulnerable.
- *Increased risk of funding nonfood purchases.* Because of the late start, Save the Children modified its payment distribution schedule, significantly increasing the value of disbursements. The organization had planned seven monthly cash transfers, each intended to cover 40 percent of beneficiary households' monthly food budget. The organization changed its disbursement schedule as follows: 2 months' worth, or 80 percent of the food budget disbursed in July 2015, 3 months' worth, or 120 percent disbursed in September 2015, and another 2 months' worth, or 80 percent disbursed in December 2015. The modified schedule increased the risk that beneficiaries would use food assistance cash to purchase nonfood items.

To address these problems, we make the following recommendations.

Recommendation 1. *We recommend that USAID's Office of Food for Peace revise its emergency award process to set deadlines for timely completion of each phase of the process.*

Recommendation 2. *We recommend that USAID's Office of Food for Peace implement procedures to update program activity timelines, budgets, and other documents as needed before approving awards.*

Recommendation 3. *We recommend that USAID's Office of Food for Peace evaluate and document its use of preaward letters in the Ebola emergency response to determine whether or not they were helpful in starting up activities.*

Recommendation 4. *We recommend that USAID's Office of Food for Peace implement procedures to verify that implementers document how much time they allot to beneficiary identification committees to find program beneficiaries.*

Recommendation 5. *We recommend that USAID's Office of Food for Peace assess and document its determination of the reasonableness of implementers' modified payment schedules.*

One Implementer Did Not Document Its Beneficiary Selection Process Adequately

USAID's Automated Directives System (ADS) 203.3.11.1, "Data Quality Standards," outlines the quality standards that make data "useful for performance monitoring and credible for reporting." These standards state that data should be precise and reliable.

Save the Children targeted poor households affected by the economic consequences of Ebola, but not affected by the disease itself. To find the most eligible beneficiaries, it established vulnerability criteria that the identification committees were supposed to use in their searches.

However, Save the Children's database captured only beneficiaries' sex, age, and location. Implementer staff could not tell us what criteria beneficiaries met to be selected for the program.

Staff said they trained the committees to use the criteria and relied on them to do so without documenting which ones were met. One official said the organization did not collect the data itself because it was not appropriate or feasible in an emergency response program.

Not documenting the selection process adequately increases the risk of nepotism and including less vulnerable beneficiaries in the program. In fact, a June 2015 Save the Children internal report found several problems with the beneficiary registration process, such as local leaders influencing the process and cash transfer committee members feeling entitled to benefits before registering others; some 155 people on the list had to be replaced because they included town chiefs and other less vulnerable people. Therefore, we make the following recommendation.

Recommendation 6. *We recommend that USAID's Office of Food for Peace implement procedures to verify that implementers document the selection criteria each beneficiary meets to qualify for the program benefits.*

OTHER MATTERS

One Implementer Did Not Allocate Expenses Correctly and Went Over Budget

According to grant documents, the allowability of costs and the acceptability of cost allocation methods must be determined in accordance with applicable cost principles. To that end, Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Nonprofit Organizations*, states that a cost is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received.

Save the Children did not allocate costs correctly and allowed budget overruns.

Misallocated Costs. Staff in the organization's office in Kailahun District, Sierra Leone, worked on programs funded by FFP and other donors. However, Save the Children did not divide the annual rent of \$5,145 among all the donors and instead charged the entire amount to FFP.

We also determined that in May 2015, although the finance coordinator worked 59 percent of the time on the FFP program, Save the Children charged the program for the person's entire salary: \$1,811.

Budget Overruns. Save the Children's schedule comparing budget with actual expenses for May 2015 outlined several overruns. For example, the organization paid a consultant \$28,050 to develop a report for several programs. The FFP program budgeted only \$1,181 for its share of this expense. Yet Save the Children charged the entire amount to FFP, which wound up paying an extra \$26,869.

These problems happened because Save the Children did not have a process to confirm that each of its programs was allocated an appropriate share of costs incurred, and FFP could not check on allocations since the award was funded through a letter of credit.² Save the Children officials said they would develop a new system that allocates costs according to the budget.

By incorrectly allocating program costs, implementers might have overcharged the Agency, giving USAID officials a distorted view of the program's operational and financial performance. Therefore, we make the following recommendations.

Recommendation 7. We recommend that USAID's Office of Food for Peace evaluate a total of \$33,825 in funds (\$5,145 of misallocated costs related to annual rent, \$1,811 in misallocated costs related to the finance coordinator's salary, and \$26,869 in budget overruns costs related to consultant payments), and determine any amounts that should be reprogrammed for better use.

Recommendation 8. We recommend that USAID's Office of Food for Peace conduct a financial review of Save the Children's activities to verify that it used funds in accordance with the terms of the grant.

² A letter of credit is a financial instrument certified by USAID that authorizes a recipient to request an advance payment. Using an automated Treasury system, a USAID implementer sends the request to the U.S. Department of Health and Human Services, USAID's servicing agent.

One Implementer Did Not Set a Realistic Budget for Bank Services

ADS 303.3.12.a, “Review of Proposed Award Budget,” states that the agreement officer (AO) must review a successful grant applicant’s budget to confirm that costs are in compliance with OMB’s and USAID’s policies. The AO must review the cost breakdown, and evaluate and analyze specific elements of costs for reasonableness and allocability.

The AO did not evaluate the budget for Mercy Corps’ bank partner fees sufficiently. Under the terms of the grant agreement, the organization was to contract with a bank to process cash transfers and deliver cash to intended beneficiaries for \$150,000.

Mercy Corps officials explained how the budget was developed. The program manager said it was based on a standard \$2 transaction fee that Ecobank charged the Liberian Government to handle cash transfers. However, given Mercy Corps’ planned disbursement schedule, a \$2 per transaction fee would exceed the budget by more than \$80,000, (Table 3).

Table 3. Estimate of Mercy Corps’ Transaction Fees

Distribution	Beneficiaries		Number of Distributions		Total Transfers	Fee (\$)	Cost
1-3	18,000*	x	3	=	54,000		
4-6	18,000*	x	3	=	54,000		
7	9,000 [†]	x	1	=	9,000		
Total					117,000	* 2	= \$234,000

* Mercy Corps intended to pilot mobile money for 10 percent of beneficiaries in one of three counties where the program operated. This meant that at least 90 percent of the targeted 20,000 beneficiaries were intended to receive cash transfers in cash; less than 10 percent were to receive the benefit via mobile money. Thus, the estimated beneficiary figures for cash transfers in cash are a conservative estimate of the transaction fees.

[†] The final distribution targeted only 10,000 beneficiaries, and this amount represents 90 percent.

Another Mercy Corps official said the budget of \$150,000 worked out to \$5 per beneficiary for 30,000 households; that statement makes clear that staff overlooked the distribution schedule in their planning.

Because Mercy Corps did not incorporate the seven planned disbursements in developing its bank partner budget, the budget did not cover program needs.

The budget is a monitoring tool used to control resources and evaluate the performance of a program. Cost overruns make it difficult to do both, and they deplete funds that implementers could have put to better use.

Recommendation 9. We recommend that USAID’s Office of Food for Peace implement procedures to verify that implementers’ proposed budgets accurately reflect a program’s financial needs.

EVALUATION OF MANAGEMENT COMMENTS

In responding to the draft report, USAID/FFP officials agreed with six of the recommendations. We acknowledge USAID/FFP's management decisions and final action on all recommendations. We disagree with USAID/FFP's management decisions on Recommendations 4, 6, and 8.

Recommendation 1. USAID/FFP officials agreed and revised guidance to improve the timely completion of each phase of the award process. Having reviewed supporting documentation received on March 1, 2016, we acknowledge FFP's management decision and final action.

Recommendation 2. USAID/FFP officials agreed and implemented procedures to update timelines, budgets, and other documents before approving awards. On the basis of supporting documentation received on March 1, 2016, we acknowledge FFP's management decision and final action.

Recommendation 3. USAID/FFP officials agreed to determine whether the use of preaward letters to initiate start-up of Ebola-response activities was helpful. Officials learned from implementers that they found the letters useful. Accordingly, we acknowledge FFP's management decision and final action.

Recommendation 4. USAID/FFP officials did not agree to implement procedures to verify that implementers document the time they allot committees to identify beneficiaries. They explained that the problem relates to implementer performance. We acknowledge FFP's management decision and final action.

Nevertheless, we do not agree with FFP's management decision. FFP should implement procedures to address the problem precisely *because* it relates to implementer performance. Monitoring the quality and timeliness of outputs like lists of beneficiaries produced by implementers is a major role of USAID officials, and early action in response to problems is essential in managing for results. Members from two of three Mercy Corps program committees said the implementer rushed them to identify beneficiaries; members of one of these further noted that Mercy Corps gave them 1 day to do so. These committee members made home visits to try to identify vulnerable residents, but because they had so little time they omitted from the list of potential beneficiaries any they didn't find at home. Rushing may lead to the selection of beneficiaries who are not the most vulnerable. Verifying that implementers document the time they allot to beneficiary identification committees could improve program selection.

Recommendation 5. USAID/FFP officials agreed to determine whether implementers' modified payment schedules were reasonable. Officials found that they were. Accordingly, we acknowledge FFP's management decision and final action.

We don't disagree, but we note the award documents indicate that cash transfers were intended to meet "immediate food needs." In their comments, FFP officials initially said a modified payment schedule would not lead to purchases of nonfood items, but then detailed what beneficiaries spent some of their cash on—medical costs, schooling, and agricultural inputs.

Although these purchases are legitimate, if a household spends 3 months' worth of money intended for food on them, it may lack for food later. If FFP does not require that money be spent on food, it should clarify its award language.

Recommendation 6. USAID/FFP officials did not agree to implement procedures for verifying that implementers document how beneficiaries meet the selection criteria. FFP officials said it would be a costly and unrealistic requirement in an emergency context. Furthermore, officials said including an individual on a beneficiary list or in a database implies the implementer verified that person's eligibility for project benefits. We acknowledge FFP's management decision and final action.

Still, we do not agree with FFP's management decision. We particularly disagree with FFP's statement that those on implementer beneficiary lists unequivocally meet eligibility criteria. Three of the four implementers audited did maintain documentation on which selection criteria their beneficiaries met to qualify for the program. Without that documentation, FFP officials cannot confirm that the programs reached their intended beneficiaries. Moreover, not documenting the selection process increases the risk of nepotism, which U.S. Government agencies do not condone.

Recommendation 7. USAID/FFP officials agreed with \$16,367 of the \$33,825 we identified as funds to be put to better use. This amount came from two sources; \$1,398 of misallocated costs related to the finance coordinator's salary, and \$14,969 of budgetary overrun in consultant fees. We acknowledge FFP's management decision and final action on this recommendation.

Recommendation 8. USAID/FFP officials did not agree to conduct a financial review of Save the Children's activities to verify that it used funds in accordance with terms of the grant. They said that the \$16,367 in funds put to better use in recommendation 7 represented less than 1 percent of Save the Children's award of \$4.4 million. In addition, FFP officials said they reviewed Save the Children's procedures for mitigating the risk of expense misallocations and found them reasonable. We acknowledge FFP's management decision and final action.

While we acknowledge FFP's management decision, we do not agree with it. First, although FFP officials said that the misallocated costs represented a small amount of the award's total value, at the time of the audit the program had expended only \$122,516. Consequently, the funds that FFP agreed to put to better use (\$16,367) made up approximately 13 percent of funds spent by Save the Children. Second, even though FFP officials determined that Save the Children's procedures for mitigating the risk of expense misallocations were reasonable, the misallocation of \$16,367 happened because the implementer did not have a process for confirming that each of its programs allocated an appropriate share of costs incurred. Moreover, FFP officials admitted that deficiencies in Save the Children's internal financial procedures led to the recommendation that funds be put to better use. By completing a financial review of the implementer's activities, USAID/FFP would be able to analyze the program's operational and financial performance accurately.

Recommendation 9. USAID/FFP officials agreed and revised internal guidance to require updates to proposed budgets before approval of awards. In light of supporting documentation received on March 1, 2016, we acknowledge FFP's management decision and final action.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of this audit was to determine whether select USAID/FFP programs were on track to address food insecurity resulting from the effects of Ebola. FFP awarded grants to Catholic Relief Services, Mercy Corps, Project Concern International, and Save the Children to implement emergency food security programs that addressed the secondary effects of Ebola.

As of June 30, 2015, FFP had obligated about \$22.7 million and disbursed about \$2.4 million through these grants. The audit covered program activities from the date of preaward, starting in January 2015 with Mercy Corps activities, until the end of audit site visits on July 9, 2015.

We conducted audit fieldwork from June 18 to September 11, 2015, at USAID/Liberia USAID/Senegal, implementer offices, and program sites in Guinea, Liberia, and Sierra Leone.

In planning and performing the audit, we assessed the significant controls that FFP and the implementers used to manage and ensure oversight of program activities. These included the awards, agreement officer's representative designation letters, monitoring plans, financial reports, and quarterly progress reports.

We used unverified data to report the total number of people who received cash transfers, food vouchers, and agricultural vouchers. However, this did not have an effect on answering the audit objective.

Methodology

To answer the audit objective, we gained an understanding of the programs and their activities through a review of program documents, including grant agreements between FFP and the implementers. We interviewed implementer and subimplementer employees; government officials; local leaders; and other members of the communities involved in the programs, such as approved vendors for food voucher redemption and committee members responsible for identifying beneficiaries.

We judgmentally selected two cash transfer distributions to observe based on the timing of fieldwork and their proximity to implementer offices. The choices were limited to those available during the scheduled visits with the implementers. The results cannot be projected to all distributions.

Beneficiary Records. We reviewed a sample of individual beneficiary records from Mercy Corps and Project Concern International. For Mercy Corps, using a random number generator, we randomly selected 29 of 48 communities where the implementer made disbursements. Next,

we judgmentally selected the first beneficiary listed from each of the selected communities. The implementer provided 24 of 29 selected beneficiary files. Therefore, we did not review five of the requested beneficiary files. However, this did not have an effect on our ability to answer the audit objective as we reviewed 24 of the 29, or 82 percent of the requested files. We reviewed them for completeness, accuracy, and reasonableness for selection in accordance with award criteria. For Project Concern International, we judgmentally selected for review the first 20 names listed in the implementer's beneficiary database for both counties it targeted. The results of sampled beneficiary records cannot be projected to all beneficiary records.

Beneficiary Interviews. We also used judgmental sampling to interview select Catholic Relief Services beneficiaries and registered Save the Children beneficiaries who had not received their first distribution.

For Catholic Relief Services, we judgmentally selected ten beneficiaries each from two communities in the Nzérékoré prefecture of Guinea, based on distance from the implementer's main office and the decision to include beneficiaries from one urban and one rural community. The communities chosen were Horoya 1 and Yalenzou Centre, respectively. Using the implementer database, we interviewed the first ten available beneficiaries from each neighborhood.

For Save the Children, we judgmentally selected 20 beneficiaries registered in the program—ten each from two communities in the Kailahun District of Sierra Leone, based on distance from the implementer's main office and the decision to include beneficiaries from one urban and one rural community. The communities selected were Kosiala and Jaama, respectively. Using the implementer database, we interviewed the first ten available beneficiaries from each neighborhood.

The results and overall conclusions are limited to the program documents and beneficiary files reviewed, interviews performed, and observations of cash transfers.

To answer the audit objective, we did not rely on computer-based data in Microsoft Excel maintained by the implementers because the results of our work showed that some of the key elements had significant errors and were incomplete. Using that data probably would lead to an incorrect conclusion given the intended use of the data. However, we obtained a reasonable level of assurance with actual data by seeking evidence from other sources, including interviews with and records for beneficiaries.

MANAGEMENT COMMENTS



January 29, 2016

MEMORANDUM

TO: Acting Regional Inspector General/Dakar, Louis Duncan, Jr.

FROM: USAID/Office of Food for Peace Director, Dina Esposito

SUBJECT: Audit of Select Activities from the USAID/Office of Food for Peace Response to the Ebola Crisis in West Africa (Report No. 7-962-16-00-X-P)

Thank you for the opportunity to review the Regional Inspector General (RIG)/Dakar Audit of Select Activities from the USAID/Office of Food for Peace (USAID/FFP) Response to the Ebola Crisis in West Africa. USAID/FFP is pleased that the RIG found that the audited projects had, at the time of review, “started to help vulnerable people meet their food needs and recover from the 2014 crisis.”

Before responding to the specific recommendations presented in RIG draft report no. 7-962-16-00-X-P, USAID/FFP considers it important to highlight that the four projects selected for the audit were only part of a broader USAID/FFP response to the food security impacts of the Ebola crisis. By early September 2014, USAID/FFP had already made its first sizeable contribution (\$4.9 million USD) to UN World Food Program (WFP) Emergency Operation (EMOP) 200761, which focused entirely on providing in-kind food assistance to individuals, households, and communities directly affected by Ebola across the three most affected countries. WFP provided food to Ebola patients, survivors, contacts, quarantined and post-quarantined communities, families of Ebola victims, and caregivers of Ebola orphans. By early October 2014, to further support these efforts, USAID/FFP had provided WFP with more than \$34 million USD in Title II in-kind commodities and International Disaster Assistance funds for the local and regional procurement of food. USAID/FFP’s contribution to the EMOP in the early months of the response enabled WFP to reach more than 3 million people throughout the crisis; this contribution is considered part of the U.S. Government’s (USG) Pillar I response—controlling the epidemic.

As noted in the RIG draft report, USAID/FFP also funded emergency food security projects to mitigate the second-order impacts of Ebola on household food consumption, market function, and agricultural production, as part of the USG’s Pillar II response—mitigating second-order impacts, including blunting the economic, social, and political tolls. The four projects audited by

the RIG—as well six subsequent awards to international non-governmental organizations and five subsequent awards to UN agencies—were specifically designed to layer on to, and complement, the food assistance WFP was already providing to directly affected individuals, households, and communities through its EMOP. The Pillar II awards address short-term gaps in household food consumption in a way that also supports the recovery of local and regional markets and agricultural production.

USAID/FFP is the only USG office addressing both the direct and indirect impacts of the Ebola crisis on food security. USAID/FFP was pleased to have the flexibility to provide both in-kind and cash-based food assistance as part of its Pillar I and Pillar II responses to the crisis. We were also pleased that we have been able to respond directly to the affected national governments' requests that Ebola-related food assistance support the recovery of local markets and economies, while not undermining local agricultural production.

Despite the slower-than-expected start-up of the four projects, cited by the RIG as the central finding of this particular audit exercise, USAID/FFP's combined Pillar I and II response has indeed been providing timely and critical support to individuals, households, communities, and markets directly and indirectly affected by the Ebola crisis since September 2014. However, as an emergency response office, USAID/FFP always strives to improve the timeliness and effectiveness of its assistance and has therefore taken the findings and recommendations presented in the RIG report seriously.

We trust that you will find USAID/FFP's responses to the RIG recommendations below thoughtful and complete. Should you have any questions or require additional information, please do let us know.

We thank you for your efforts and for sharing your perspectives and suggestions for improvement with us.

Sincerely,
Dina Esposito /s/
Director
Office of Food for Peace

USAID/FFP Response:

Audit of Select Activities from the USAID/Office of Food for Peace
 Response to the Ebola Crisis in West Africa (Report No. 7-962-16-00-X-P)
 Submitted January 29, 2016

RIG Recommendation 1: We recommend that USAID’s Office of Food for Peace revise its emergency award clearance process to set deadlines for timely completion of each phase of the process.

USAID/FFP Position: USAID/FFP agrees with Recommendation 1.

In response to this recommendation, USAID/FFP is taking three concrete actions.

The first action is to revise its internal *Emergency Awards Process Guidance*, created by USAID/FFP on June 18, 2015. The revision will involve the inclusion of suggested timeframes to the main steps of the Emergency Food Security Program (EFSP) award process (see Exhibit A for the revised *Draft Emergency Awards Process Guidance*).

The second action is to refine an internal tool that outlines the specific steps, presents suggested timeframes for completion of emergency award process main steps, and includes staff roles and responsibilities as articulated in the guidance, and presents them in a readily available and easily comprehensible flowchart format (see Exhibit B for the *Draft Emergency Guidance Flowcharts*).

The third action is to revise USAID/FFP’s internal awards clearance checklist, which is now titled the *EFSP Application Review Process Checklist*. The purpose of this revision and renaming is to better align the checklist with USAID/FFP’s concept paper and application reviews, negotiation, and approval processes, as articulated in both the *Emergency Awards Process Guidance* and *Emergency Guidance Flowcharts*. As part of this revision, the checklist will require USAID/FFP selection committee (SC) chairs to record the dates of completion of each of the main steps of the concept paper and application submissions, review, and negotiation process. The revision will also include a step that prompts the SC chair to ensure that all project documents, including timelines and budgets, are up-to-date, taking into consideration the anticipated final approval date of the award by the USAID/FFP Agreement Officer (AO) (see Exhibit C for the *Draft EFSP Application Review Process Checklist*). USAID/FFP will require that the checklist be submitted as part of the complete award package to the USAID/FFP institutional support contractor (ISC) for processing for the USAID/FFP AO’s final review and approval.

The revised guidance and process tracking tools will enable USAID/FFP to closely monitor the timeliness of the entire USAID/FFP emergency award process, from an applicant’s submission of a concept paper to the submission of the complete award package to the ISC and AO for final review and approval.

In terms of the findings associated with this recommendation, please note that USAID/FFP was operating under a non-competition waiver signed by Dina Esposito, USAID/FFP Director, on October 17, 2014. It was not until March 25, 2015, that USAID/FFP released its competitive *Fiscal Year (FY) 2015 Emergency Annual Program Statement (APS) Amendment 1 - Guinea, Liberia, and Sierra Leone Emergency Response and Recovery for Ebola Virus Disease-Affected Countries*. This Amendment was a specific call for Ebola-related applications and states, ...*USAID/FFP estimates that the time from submission of a concept paper to award issuance is approximately two to three months.*

Furthermore, it is important to note that there were several rounds of negotiations between USAID/FFP and each of the applicants, as represented by the issuance of USAID/FFP SC issues letters and applicant responses to the issues letters. USAID/FFP considers this negotiation process critical, not only to aligning new projects with USAID/FFP's objectives and prioritized response strategies, but also to improving overall project design quality and effectiveness. USAID/FFP considers this back and forth negotiation as the quality improvement and strategic alignment phase of the overall award process and therefore represents good stewardship of USG resources.

USAID/FFP Action: USAID/FFP will finalize the *Emergency Awards Process Guidance*, *Emergency Guidance Flowcharts*, and *EFSP Application Review Process Checklist* by February 29, 2016. USAID/FFP will submit these final documents to the RIG for review and consideration by March 1, 2016. As USAID/FFP expects that these new documents will improve USAID/FFP's timely completion of each phase of emergency award clearance process, USAID/FFP will submit a request to the RIG to accept these actions and close the recommendation at that time.

RIG Recommendation 2: We recommend that USAID's Office of Food for Peace implement procedures to update program activity timelines, budgets, and other documents as needed before approving awards.

USAID/FFP Position: USAID/FFP agrees with Recommendation 2.

USAID/FFP is in the process of revising its EFSP application review, negotiation, and award processes. These revisions include steps to ensure that project activity timelines, budgets, and other documents are updated as needed, before final award packages are submitted to the ISC and AO for final review and approval. The steps that USAID/FFP is taking to finalize these EFSP revisions are presented above in USAID/FFP's response to Recommendation 1.

USAID/FFP Action: USAID/FFP will finalize the *Emergency Awards Process Guidance*, *Emergency Guidance Flowcharts*, and *EFSP Application Review Process Checklist* by February 29, 2016. USAID/FFP will submit these final documents to the RIG for review and consideration, by March 1, 2016. As USAID/FFP expects that these new documents will ensure that project activity timelines, budgets and other documents are updated prior

to award approval, USAID/FFP will submit a request to the RIG to accept these actions and close the recommendation at that time.

RIG Recommendation 3: We recommend that USAID’s Office of Food for Peace evaluate and document its use of pre-award letters in the Ebola emergency response to determine whether or not they were helpful in starting up activities.

USAID/FFP Position: USAID/FFP agrees with Recommendation 3.

In response to this recommendation, USAID/FFP evaluated and documented the use of pre-award letters (PALs) by the subject awardees to determine whether or not the PALs were helpful in quickly initiating EFSP activities.

USAID/FFP contacted each of the four awardees on January 11, 2016, and asked them to respond to four specific questions regarding the activities and actions they undertook between the issuance of their PALs and the approval of their awards (see Exhibit D for USAID/FFP’s request for information on the subject). Based upon the information provided by its awardees, USAID/FFP concludes that the PALs were extremely helpful and did, in fact, facilitate substantive start-up activities (see Exhibits E through H).

In response to the pointed question, “Was the PAL useful in getting project activities started? Why or why not? In what way/s?” each of the awardees responded positively:

- **Mercy Corps/Liberia:**
“...during the PAL period, Mercy Corps was able to hire staff, open an office, issue an RFA, assess and select local sub-recipients, coordinate with other programs to determine districts and approaches, and present our proposed program to government authorities. USAID/FFP issued Mercy Corps a PAL which allowed Mercy Corps to incur pre-award costs up to a third of the value of the total award (\$2.7 million out of \$8.97 million), which enabled us to undertake all these critical activities.”
- **Project Concern International (PCI)/Liberia:**
“The PAL was very useful in getting project activities started in that it allowed PCI to recruit the Chief of Party and consultants, to allocate existing staff time to project start-up, and to carry out all of the initial activities mentioned in question one above all prior to signing the formal agreement. This flexibility enabled PCI to have the Chief of Party in place one week after signing the formal agreement.”
- **Save the Children/Sierra Leone:**
“Yes, having the PAL, which indicates near certain funding, allowed us to kick off key program activities and begin incurring costs; without a PAL, there is a limited threshold for doing so given lack of alternative resources to cover the project’s planned activities. Having the PAL enabled us to mobilize an interim Project Director and additional start-up surge support, advertise national and international staff positions, begin work planning and the development of MEAL [Monitoring and

Evaluation Accountability and Learning] plans and tools, begin assessing financial service providers to conduct the cash transfers, initiate key procurements, and more. Without the PAL, program start up would have been further delayed until the receipt of the full agreement.”

- Catholic Relief Services (CRS)/Guinea
“The PAL was extremely useful in getting project activities started as it provided reassurance that the award would eventually be made and this triggered CRS to be able to agree to pre-finance up to a certain amount. It enabled CRS and OCPH [Organisation Catholique pour la Promotion Humaine - CRS’ local sub-grantee] to hold pre requisite meetings and begin setting up activities in the field.”

USAID/FFP Action: USAID/FFP evaluated and documented its awardees’ use of PALs to initiate project activities in response to the Ebola crisis. USAID/FFP concludes that the PALs were very helpful in promoting project start-up prior to the awardees’ receipt of their final awards. USAID/FFP therefore requests that the RIG accept these actions and this determination and close Recommendation 3.

RIG Recommendation 4: We recommend that USAID’s Office of Food for Peace implement procedures to verify that implementers document how much time they allot to beneficiary identification committees to find program beneficiaries.

USAID/FFP Position: USAID/FFP does not agree with Recommendation 4.

USAID/FFP does not agree with the recommendation to implement specific, additional procedures to verify that awardees “document how much time they allot to beneficiary selection committees to find program beneficiaries,” as USAID/FFP and its awardees already undertake a variety of measures to ensure beneficiary selection is conducted in a timely, effective, and transparent manner. Whether beneficiary selection committees being “rushed” led to the selection of less vulnerable beneficiaries—as stated by the RIG on page 6—in regards to the Mercy Corps project—is considered by USAID/FFP to be a separate issue related to Mercy Corps’ performance and not related to USAID/FFP procedures.

As part of the USAID/FFP emergency application process, applicants typically propose project timelines and detailed beneficiary selection strategies, which include the amount of time applicants plan to allot to beneficiary selection and how they will carry out the process. In most cases, applicants include specifics concerning the timing of project activities by month, even though this is not required as part of the USAID/FFP *FY 2015 Emergency APS*.

Once the USAID/FFP AO approves the award, awardees are required to report deviations from their approved project timelines, along with discussion of their programmatic challenges, in their quarterly program progress reports, as specified in their awards. As per the awards of all four audited awardees, the content of quarterly reports should present:

- *A comparison of actual accomplishments cumulatively, with the established goals and objectives, and expected results; the findings of the investigator; or both. Data (both qualitative and quantitative) must be presented using established baseline data indicators, and be supported by a brief narrative. Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs.*
- *Reasons why established goals were not met (if applicable), the impact of the program objective(s), and how the impact has been/will be addressed.*
- *Other pertinent information including, when appropriate, success stories (if available) which illustrate the direct positive effects of the program; how unforeseen circumstances affected overall performance compared to original assumptions (if applicable), how activities were accordingly adjusted or re-targeted; and analysis and explanation of cost overruns or high unit costs.”*

In addition to quarterly reports, awardees are required, per their awards, to provide programmatic updates:

- *“On a regular basis, the Recipient shall provide to the AOR (and to the FFP overseas field representative, if there is one) brief, timely, informal updates that provide information such as progress toward accomplishing each intervention or objective and achieving expected results, constraints, changes in the situation, and any aspects of the program that show demonstrable progress or achievement, expected or otherwise (“success stories”).”*

USAID/FFP awardees put a variety of measures in place to ensure that beneficiary selection is conducted in a timely, effective, and transparent manner; i.e., that beneficiaries meet the eligibility criteria approved by USAID/FFP. Such measures may include:

- Publicizing beneficiary lists so that community members can voice disagreement;
- Establishing hotline/complaints mechanisms via which community members can report their grievances, such as the inclusion of non-eligible beneficiaries; and
- Undertaking a beneficiary verification process that cross-checks community-proposed beneficiary lists with projects’ approved eligibility criteria—a process that is expected to result in adjustments to the final beneficiary lists used by awardees. This additional verification process typically involves random sampling of the beneficiary lists by partners.

It is important to note that, in the case of Mercy Corps, separate community-led beneficiary verification committees were established with the sole task of verifying that individuals proposed by the beneficiary selection committees actually met the project's eligibility criteria. As per Mercy Corps reporting, the engagement of the beneficiary verification committees typically results in the removal of individuals from the first-round beneficiary lists produced by the selection committees. In addition, Mercy Corps undertook a sampling of the beneficiary lists, independently, to ensure that individuals on the beneficiary lists satisfied the project's eligibility criteria. In short, beneficiary selection is a multi-staged process that involves USAID/FFP awardees and communities, as well as multiple means of cross-validation.

Finally, USAID/FFP regularly monitors its projects. As part of monitoring visits, USAID/FFP staff discusses issues such as beneficiary selection and selection criteria with partner staff, beneficiaries, and non-beneficiary community members.

USAID/FFP Action: USAID/FFP reviewed the beneficiary selection processes employed by its awardees and found that they apply a variety of strategies and cross-validation processes to ensure that beneficiary selection is conducted in a timely, effective, and transparent manner. USAID/FFP has determined that its current application review and awardee reporting processes are sufficient to monitor and achieve this. USAID/FFP therefore requests that the RIG accept this position and close Recommendation 4.

RIG Recommendation 5: We recommend that USAID's Office of Food for Peace assess and document its determination of the reasonableness of implementers' modified payment schedules.

USAID/FFP Position: USAID/FFP agrees with Recommendation 5.

USAID/FFP assessed the reasonableness of awardees' modified payment schedules, and has reached a positive determination based upon the evidence reviewed. USAID/FFP presents the following information to the RIG as justifications for this determination.

During the rainy season, when road conditions deteriorate, travel to remote sites by USAID/FFP awardee staff, and to distribution points by beneficiaries and cash transfer agents, becomes difficult. Although USAID/FFP awardees set up pay points as close to beneficiaries as possible, there are opportunity and financial costs and protection risks associated with beneficiaries having to travel to distribution points. These costs and risks are considered higher by beneficiaries when they must travel monthly as opposed to quarterly. Thus, bundled cash payments are preferable from both a beneficiary and a programmatic standpoint.

Furthermore, combining transfers into larger cash payments allows beneficiaries to buy commodities in bulk, creating cost savings that could be dedicated to other household expenditures and investments, such as hiring farm labor, paying medical expenses and school fees, and investing in petty trade to support household food and income security. Similarly, decreasing the number of payments reduces the fees charged by the cash

transfer service providers to USAID/FFP awardees, thus creating cost savings that can be passed on to beneficiaries.

Save the Children--which was specifically mentioned in the findings presented on page 7- - associated with this recommendation, chose to modify its cash transfer payment schedule in order to harmonize its approach with the Government of Sierra Leone's social safety net program, and to ensure consistency with other USAID/FFP awardees. Please note that the Government of Sierra Leone also bundles its monthly cash transfer payments in response to beneficiary preferences, cost savings, and domestic bank capacity.

In terms of the RIG's stated concern that the bundling of monthly cash transfers could lead to beneficiaries using cash for purposes not intended by the awardees and USAID/FFP, the evidence does not support this concern. According to Save the Children's latest post-distribution monitoring report (see Exhibit I), beneficiaries spent the majority of their cash transfers on food, followed by medical costs, schooling, and agricultural inputs.

In its post-distribution monitoring report from January 2016, Save the Children reported on page 3:

- *“In order to have a sense of the change of household expenditure allocations prior to and during the cash transfer, we reviewed the expenditures of households overall. At the baseline, households reported high pressures for debt repayment, schooling and medical costs. Increased income from the cash transfer is meant to help households cover immediate food needs and decrease reliance on negative coping strategies, like selling assets, not seeking medical treatment, not sending children to school, and etcetera. We also asked how much money the household saved in the previous month, to gauge the condition in which they were as the program started. Only eight (8) percent of the sampled households had saved money, and the average money saved of those who did was 24,091 SLL (roughly \$6 USD).”*

USAID/FFP considers it important to note here that all four of the subject awards are grants, and that within the terms and conditions of the four awards i.e., grants, USAID/FFP has determined that there is no requirement that awardees must seek the approval of USAID/FFP for changes to their cash transfer payment schedules; note that the overall monthly transfer amount did not change, just their frequency. However, it is expected that awardees discuss proposed changes to their project strategies and timelines with the USAID/FFP representatives in the field and in Washington, D.C., as well as through quarterly and other reporting.

Based upon the information presented above, USAID/FFP has determined that the modification of cash transfer payment schedules is reasonable and appropriate given the context, and in accordance with the terms and conditions of the awards held by the subject awardees.

USAID/FFP Action: USAID/FFP has assessed the reasonableness of its awardees' modified payment schedules and reached a positive determination on this issue. USAID/FFP therefore requests that the RIG accept this position and close Recommendation 5.

RIG Recommendation 6: We recommend that USAID's Office of Food for Peace implement procedures to verify that implementers document the selection criteria each beneficiary met to qualify for the program benefits.

USAID/FFP Position: USAID/FFP does not agree with Recommendation 6.

USAID/FFP requires the awardees to validate that targeted communities, including community leaders, fully understand beneficiary selection criteria, that criteria are objectively applied, and that beneficiary selection is conducted in a timely, transparent, and equitable manner. USAID/FFP partners employ a variety of strategies to verify that selected beneficiaries meet the beneficiary selection criteria, as described in USAID/FFP's response to Recommendation 4. In addition to those strategies presented above, USAID/FFP staff plays a role in the verification process through the sampling of beneficiaries during USAID/FFP monitoring visits to projects sites.

It is important to recognize that USAID/FFP Ebola response EFSP awardees are reaching more than one million people across the three most affected countries. Documenting how each individual meets the selection criteria would be a costly and unrealistic requirement by the donor of its partners in an emergency context and would further delay the provision of assistance to beneficiaries.

Furthermore, USAID/FFP holds that project beneficiary lists are comprised of individuals who meet projects' targeting criteria, and that awardees have validated their eligibility in a variety of ways. Therefore, inclusion of an individual in a project's beneficiary list infers that the individual has been verified and thus meet the required eligibility criteria.

In terms of the RIG's specific finding that a salaried professional (a teacher) was included in the beneficiary list of one of USAID/FFP's awardees, it is important to note that schools across all three of the most affected countries were closed for almost a year, and teachers were not paid during that time. USAID/FFP considers such individuals to have been indirectly affected by the impacts of Ebola and thus eligible for assistance, as per the award and USAID/FFP's targeting objectives.

USAID/FFP Action: USAID/FFP does not agree that additional procedures need to be implemented by USAID/FFP and its awardees to verify that each individual beneficiary meets a project's selection criteria. USAID/FFP maintains that the inclusion of an individual in a project's beneficiary database, after a series of verification steps, is sufficient to determine that the individual meets the project's approved eligibility criteria and therefore qualifies for project benefits. Therefore, USAID/FFP requests that the RIG accept this position and close Recommendation 6.

RIG Recommendation 7: We recommend that USAID’s Office of Food for Peace determine the allowability of \$5,145, \$1,811, and \$26,869 in ineligible questioned costs, and recover from Save the Children the amounts determined to be unallowable.

USAID/FFP Position: USAID/FFP agrees with Recommendation 7.

In response to this recommendation, USAID/FFP contacted Save the Children on January 11, 2016, requesting an update on the costs questioned by the RIG, as well as to find out how Save the Children would ensure that costs are distributed appropriately across the organization’s country office funding portfolio henceforth (see Exhibits J and K for Save the Children’s response to this USAID/FFP request for information).

As per Save the Children’s response, received by USAID/FFP on January 21, 2016, Save the Children has revisited its allocation of these RIG-questioned costs across its overall country/project budget for Save the Children.

In regards to the \$5,145 in office rental costs that Save the Children charged to the Kailahun Food for Emergency Ebola Virus Disease (FEEDS) project, Save the Children stated that this 100 percent allocation is allowable, allocable and reasonable, on the grounds that “...nearly all staff are dedicated at 100 percent to the FEEDS program.” Save the Children provides further explanation and justification for allocating the full 100 percent of the Kailahun office rental cost to the USAID/FFP project. USAID/FFP is satisfied with this explanation and deems the expense allowable, allocable, and reasonable, as per 2 C.F.R 200, Subpart E, Cost Principles.

In regards to the \$1,811 allocation that the RIG did not consider to be the USAID/FFP project’s fair share of the Finance Coordinator’s monthly salary, Save the Children considered this an anomaly, and stated that the “the level of effort on the FEEDS project was reconciled to match and the difference rightly charged to the awards that they belonged.” Save the Children has now charged \$413.32 of the Finance Coordinator’s salary to the FEEDS project, based upon updated guidance provided by Save the Children to the Sierra Leone country office. USAID/FFP is satisfied with the action taken by Save the Children and deems the current allocation allowable, allocable and reasonable, as per 2 C.F.R 200, Subpart E, Cost Principles.

In regards to the \$26,869 that Save the Children allocated to the FEEDS project for services rendered by a food security and livelihoods consultant—services that benefitted other Save the Children projects—Save the Children has made cost adjustments based upon the consultant’s level of effort on the FEEDS project. The FEEDS project has now been charged approximately \$11,900 total, with the balance of the consultant’s costs allocated to other benefitting projects. USAID/FFP is satisfied with the action taken by Save the Children and deems the current allocation to the USAID/FFP project allowable, allocable, and reasonable, as per 2 C.F.R 200, Subpart E, Cost Principles.

In terms of specific RIG findings associated with this recommendation, the RIG categorized the consultant’s fees as a “budget overrun” on page 9. USAID/FFP does not

agree with this classification, because according to Section 1.4(b) of the Save the Children award, prior approval is not required for budget transfers in excess of 10 percent across direct cost categories. In other words, these grants have 100 percent line item flexibility across direct costs. Therefore, USAID/FFP considers the consultant costs charged to the USAID/FFP project an incorrect allocation of costs – that has since been rectified – and not a “budget overrun”, suggesting that the USAID/FFP project had covered a disproportionate share of the consultant cost allocation.

USAID/FFP Action: USAID/FFP is satisfied with the actions taken and justifications provided by Save the Children in regard to the costs cited by the RIG. USAID/FFP has determined that Save the Children’s cost reallocations, and the resulting costs allocated to the USAID/FFP grant specifically, are allowable, allocable, and reasonable. USAID/FFP therefore does not plan to pursue the recovery of any costs from Save the Children at this time. USAID/FFP requests that the RIG accept these actions and close Recommendation 7.

RIG Recommendation 8: We recommend that USAID’s Office of Food for Peace conduct a financial review of Save the Children’s activities to verify that it used funds in accordance with terms of the grant.

USAID/FFP Position: USAID/FFP does not agree with Recommendation 8.

USAID/FFP does not agree with this recommendation on the following grounds:

- 1) USAID/FFP does not consider the recommendation an appropriate or cost-effective response to the findings presented in the RIG report. While such questioned allocations could suggest an overall weakness in Save the Children’s internal financial procedures and systems, the RIG-questioned costs—before Save the Children’s internal cost reallocations—represented only 0.77 percent of the overall project budget and thus are not representational of Save the Children’s financial capacity to correctly and appropriately allocate costs across projects. Adjusting for Save the Children’s reallocations (see Exhibits J and K), the total value of the misallocation amounted to \$16,366, which represents only 0.37 percent of the overall project budget. Please see below for these calculations.

RIG-Questioned Cost Allocations	Save the Children Cost Adjustments Based on “Fair Share”	Difference Reallocated from FEEDS to Other Save the Children Projects
\$5,145	\$5,145	\$0
\$1,811	\$413	\$1,398
\$26,869	\$11,900	\$14,969
Total: \$33,825	Total: \$17,458	Total: \$16,367

Total FEEDS Project Budget: \$4,384,010		
Percent of Overall Budget: \$33,825/\$4,384,010 = 0.77 percent		Percent of Overall Budget: \$16,367/\$4,384,010 = 0.37 percent

The misallocations of the costs to the USAID/FFP project have since been corrected to the satisfaction of USAID/FFP, as presented above in USAID/FFP's response to Recommendation 7. The updated project's cost allocations are now considered in accordance with the terms of Save the Children's award, as well as 2 C.F.R., Subpart E, Cost Principles.

- 2) Save the Children's policies and procedures for calculating staff levels of effort and "fair share" of communal operational costs, and for supporting the Save the Children country office operations "to mitigate against misallocations of expenditures in the future" (as presented in Exhibits J and K), were reviewed by USAID/FFP and considered sound.

USAID/FFP Action: USAID/FFP reviewed the actions taken by Save the Children, as presented in USAID/FFP's response to Recommendation 7 above, and considers them to be satisfactory in terms of financial management. USAID/FFP considers that these actions demonstrate the organization's capacity to manage USAID/FFP financial resources effectively and responsibly and does not consider a financial review of Save the Children's activities as warranted from a financial risk management perspective. USAID/FFP therefore requests that the RIG accepts USAID/FFP's position on this issue and close Recommendation 8.

RIG Recommendation 9: We recommend that USAID's Office of Food for Peace implement procedures to verify that implementers' proposed budgets accurately reflect a program's financial needs.

USAID/FFP Position: USAID/FFP agrees with Recommendation 9.

Applicants provide their best estimates of program costs at the time of budget preparation, based on historical costs and current costs of similar programs. Applicants use this information to arrive at dollar estimates for each budget line item. Application budgets, and specific line item cost estimates therein, are thoroughly reviewed by USAID/FFP SCs, USAID/FFP field staff, and the USAID/FFP ISC for cost accuracy, allowability, allocability and reasonableness, during the application review and approval process. USAID/FFP maintains that the RIG-questioned costs, highlighted in the findings associated with this recommendation, are a result of Save the Children's incorrect application of its own established internal financial procedures, and that they are not a result of deficiencies in the budget review and analysis processes undertaken by USAID/FFP, the ISC, and/or the AO.

USAID/FFP considers that the approved budgets accurately reflected the projects' anticipated financial needs at the time of the subject awards' approval. Furthermore, as noted above in USAID/FFP's response to Recommendation 5, all four of the subject awards are grants, and it is within the parameters of the awards for awardees to make adjustments to the direct cost budget lines up to 100 percent, based upon updated information and/or changing circumstances, as long as these adjustments are in accordance with the terms and conditions of their awards as per 22 C.F.R. 200.308 Revision of budget and program plans.

However, as noted in USAID/FFP's response to Recommendations 1 and 2, USAID/FFP is in the process of finalizing several of its internal EFSP process guidance and tools, which will reinforce the requirement for USAID/FFP to update proposed project budgets prior to USAID/FFP submission of award packets to the ISC and to the AO for final review and approval. This step will contribute to project cost estimates being as up-to-date as possible prior to award.

USAID/FFP Action: USAID/FFP will finalize the *Emergency Awards Process Guidance*, *Emergency Guidance Flowcharts*, and *EFSP Application Review Process Checklist* by February 29, 2016. USAID/FFP will submit these final process documents to the RIG for review and consideration by March 1, 2016. As USAID/FFP considers that these actions will contribute to project cost estimates being as up-to-date as possible prior to award, USAID/FFP will submit a request to the RIG to accept these actions and close the recommendation at that time.

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